

"(c) SPECIAL RULES FOR WATER AND SEWERAGE DISPOSAL UTILITIES.—

"(1) GENERAL RULE.—For purposes of this section, the term contribution to the capital of the taxpayer includes any amount of money or other property received from any person (whether or not a shareholder) by a regulated public utility which provides water or sewerage disposal services if—

"(A) such amount is a contribution in aid of construction;

"(B) in the case of contribution of property other than water or sewerage disposal facilities, such amount meets the requirements of the expenditure rule of paragraph (2), and

"(C) such amount (or any property acquired or constructed with such amount) is not included in the taxpayer's rate base for rate-making purposes.

"(2) EXPENDITURE RULE.—An amount meets the requirements of this paragraph if—

"(A) an amount equal to such amount is expended for the acquisition or construction of tangible property described in section 1231(b);

"(i) which is the property for which the contribution was made or is of the same type as such property, and

"(ii) which is used predominantly in the trade or business of furnishing water or sewerage disposal services.

"(B) the expenditure referred to in subparagraph (A) occurs before the end of the second taxable year after the year in which such amount was received, and

"(C) accurate records are kept of the amounts contributed and expenditures made, the expenditures to which contributions are allocated, and the year in which the contributions and expenditures are received and made.

"(3) DEFINITIONS.—For purposes of this subsection—

"(A) CONTRIBUTION IN AID OF CONSTRUCTION.—The

term contribution in aid of construction shall be defined by regulations prescribed by the Secretary, except that such term shall not include amounts paid as service charges for starting or stopping services.

"(B) PREDOMINANTLY.—The term

predominantly

means 80 percent or more.

"(C) REGULATED PUBLIC UTILITY.—The term

regulated

public utility has the meaning given such term by section

7701(a)(33), except that such term shall not include any

utility which is not required to provide water or sewerage

disposal services to members of the general public in its

service area.

"(4) DISALLOWANCE OF DEDUCTIONS AND CREDITS;

ADJUSTED

BASIS.—Notwithstanding any other provision of this subtitle,

no deduction or credit shall be allowed for, or by reason of,

any expenditure which constitutes a contribution in aid of

construction to which this subsection applies. The adjusted

basis of any property acquired with contributions in aid of

construction to which this subsection applies shall be zero.